

THE COMMISSION'S KEY RECOMMENDATIONS

Addressing China's Currency Manipulation

- China's recent exchange rate policy reforms have to date resulted in only a 2.1 percent appreciation of the renminbi (RMB) against the U.S. dollar, leaving the RMB highly undervalued. In the absence of immediate steps to allow the RMB to appreciate by at least 25 percent against the U.S. dollar or a transparent, trade-weighted basket of international currencies, the Commission recommends that Congress pursue a four-track policy to move China to take appropriate action to revalue the RMB:
 - Congress should press the Administration to file a WTO dispute regarding China's exchange rate practices. These practices continue to violate a number of its WTO and IMF membership obligations, including the WTO prohibition on export subsidies and the IMF proscription of currency manipulation. Congress should press the Administration to respond to China's violation of its international obligations by working with U.S. trading partners to bring to bear on China the mechanisms of all relevant international institutions.
 - Congress should consider imposing an immediate, across-the-board tariff on Chinese imports at the level determined necessary to gain prompt action by China to strengthen significantly the value of the RMB. The United States can justify such an action under WTO Article XXI, which allows members to take necessary actions to protect their national security. China's undervalued currency has contributed to a loss of U.S. manufacturing, which is a national security concern for the United States.
 - Congress should reduce the ability of the Treasury Department to use technical definitions to avoid classifying China as a currency manipulator by amending the 1988 Omnibus Trade Act to (i) include a clear definition of currency manipulation, and (ii) eliminate the requirement that a country must be running a material global trade surplus in order for the Secretary of the Treasury to determine that the country is manipulating its currency to gain a trade advantage.
 - Congress should urge the Treasury Department to maintain a high level of pressure on China to take more significant actions expeditiously to revalue its currency and, if such actions are not forthcoming by the time Treasury issues its next exchange rate report, to designate China as a currency manipulator and initiate bilateral and IMF negotiations.

Challenging China's IPR Violations

- The Commission recommends that Congress support the U.S. Trade Representative in taking immediate action under U.S. law and in international venues pertaining to China's violation of IPR obligations, particularly China's failure to meet the requisite standards of effective enforcement, including criminal enforcement, explicitly imposed by the Trade Related Aspects of Intellectual Property Rights (TRIPS) Agreement.

Coordinating with the European Union and Japan on China Trade and Security Matters

- The Commission recommends that Congress work with the Administration to undertake more active efforts to coordinate with the European Union (EU), Japan, and other interested nations as appropriate to address mutual trade- and security-related concerns with China. Among these areas should be the following:
 - European governments and Japan share U.S. concerns about continuing large-scale IPR violations in China. Brussels, Tokyo, and Washington should coordinate their strategies on improving Chinese IPR compliance, particularly through joint action in the WTO.
 - U.S., EU, and Japanese officials should work together within the International Monetary Fund (IMF), the WTO, and other appropriate fora to move China toward a more meaningful upward revaluation of the Chinese RMB that is more reflective of current economic realities.
 - U.S., EU, and Japanese officials should work to enhance the effectiveness of the TRM within the WTO and consider undertaking an annual joint assessment of China's compliance record, in conjunction with China's other major trade partners if possible, that could serve as an alternative mechanism for measuring and improving China's compliance shortfalls.
 - U.S. and EU officials should engage with each other to evaluate China's progress toward meeting U.S. and EU criteria for market economy status with the goal of arriving at a consistent analysis that ensures that China will have taken concrete and irreversible steps to earn market economy status before the benefits of such status are conferred.
 - U.S., EU, and Japanese officials should develop coordinated responses to shared security concerns. Among the issues that should be considered is the EU's arms embargo on China, a major concern of both Japan and the United States.

Penalizing Chinese Firms Involved in Proliferation

- The Commission recommends that Congress encourage the Administration to use Executive Order 13382 to freeze the assets of Chinese firms involved in WMD or missile-related proliferation, or Chinese companies or financial institutions that may be assisting or lending to such proliferators. Congress also should encourage the Administration to expand the provisions of Executive Order 13382 so the U.S. property of a parent company can be frozen if the parent knows or has reason to know about the pro-

liferation activities undertaken by its subsidiaries, or so the U.S. property of financial institutions can be frozen if they know or have reason to know of the involvement of their lending customers in proliferation activities.

Developing a National Strategy for Technology Competitiveness

- As recommended in the Commission's 2004 Report to Congress, the U.S. government must develop a coordinated, comprehensive national technology competitiveness strategy designed to meet China's challenge to U.S. scientific and technological leadership. America's economic competitiveness, standard of living, and national security depend on such leadership. The Commission therefore recommends that Congress charge the Administration to develop and publish such a strategy in the same way it is presently required to develop and publish a national security strategy that deals with our military and political challenges around the world. Such a strategy should:
 - Identify future technology base goals;
 - Recommend policies for directing funds toward maintaining the U.S. technology base;
 - Initiate a national educational program similar to the programs developed in the post-Sputnik era to enhance the level of math and science education at the K-through-12, undergraduate, and graduate levels in the United States;
 - Recommend appropriate tax and investment policies to encourage high-technology-related research, development, and manufacturing activities in the United States.

Responding to China's Military Development and Reducing the Risk of Conflict

- The Commission believes that there is an urgent need for Congress to encourage increasing U.S. military capabilities in the Western Pacific in response to growing Chinese capabilities and deployments in the area.
- The Commission recommends that Congress and the Administration review the issue of defense coordination with Taiwan. The Commission believes that the arms sales package should remain on offer, and further believe that Congress should take steps to facilitate strong working relationships through such measures as authorizing the exchange of general and flag officers, conducting interactive combat data exchange with Taiwan defense forces, providing increased opportunities for Taiwan officers to be trained in the United States, and establishing institutional relationships with the Legislative Yuan to improve the oversight of defense matters.
- The Commission recommends that Congress enact legislation instructing the President and the appropriate officials of his cabinet to seek initiation of discussions with China with the objective of developing and implementing new confidence building measures (CBMs) that facilitate resolution of tensions that may develop between the two nations and to minimize misunder-

standing between the nations' civilian and military leaders at the strategic, operational, and tactical levels. These CBMs could include communications mechanisms, opportunities for opposite number leaders to meet and establish relationships with each other, regular information-sharing devices, and hot lines between DoD and the PRC's Ministry of Defense.

Urging the European Union to Maintain the Embargo on Weapons Sales to China

- The Commission recommends that Congress encourage the President and the Secretaries of State and Defense to continue to press their European counterparts to maintain the EU's embargo on weapons sales to China. U.S. officials must emphasize in the starkest terms that removal of the embargo is not merited by significant improvements in China's human rights actions. They also must stress that flows of weapons to China that might result from lifting the embargo could increase the risk of conflict between China and the United States and also increase the likely cost to the United States of any such conflict in time, money, materiel, and casualties—and that, consequently, the United States will view lifting the embargo with grave concern.

Facilitating Mutually Beneficial Steps to Reduce Conflict Over Energy

- The Commission recommends that Congress:
 - Mandate the establishment of a U.S.-China Energy Working Group in which both nations are represented by senior government officials, supported by an advisory group composed of representatives of relevant industry, environmental, academic, research, and nongovernmental organizations and members of Congress. The Group should have the responsibility to (1) identify areas where both nations can most profitably work together for mutual benefit on energy issues and challenges; (2) identify and rank areas and issues with respect to which there is a significant possibility that U.S.-China energy-related conflicts will develop; (3) offer recommendations to both governments for resolving energy-related problems and disagreements; (4) offer recommendations to both governments for promoting development and use of conservation and efficiency mechanisms, alternative fuels, and other means of securing energy self-sufficiency and reducing the need for imported energy sources, especially oil; and (5) oversee and make recommendations to both governments concerning joint research and development activities in energy-related fields;
 - Encourage the initiation of new cooperative efforts with China to (1) increase the efficiency of its energy use, including energy use intensity reduction, clean coal technologies, coal-to-liquids technologies, and combustion efficiency improvements; (2) shift some current reliance on oil to coal (using advanced clean coal technology) and natural gas; and (3) explore and pursue the economic, technical, and logistical feasibility of using renewable energy sources in lieu of some portion of the projected increase in oil use. At the same time, China should be strongly

encouraged to (1) abandon its policy of acquiring oil at the wellhead or field in a mercantilist fashion; (2) procure oil and gas according to international practices (i.e., purchasing it on the open international marketplace); and (3) cease providing assistance, arms, and proliferation-related technologies to problematic states in possible return for access to their energy resources; and

- Urge the Administration to use all available bilateral and multilateral diplomatic means to persuade China to change its approach to energy security with respect to oil resources by (1) purchasing oil for import in the open international oil market; (2) coordinating its activities with the International Energy Agency (IEA); and (3) engaging in the IEA's efforts to build oil stocks and release them on a coordinated basis in the event of supply disruptions or speculation-driven oil price spikes.